

**Commonwealth of Kentucky
Kentucky Department of Revenue**

**INFORMATION FOR FED/STATE
DEVELOPMENT OF MODERNIZED E-FILE
FOR INDIVIDUAL INCOME TAX**

KY PUBLICATION 4164

Software Developer's Guide



**Tax Year 2012
Processing Year 2013**

Revised: January 9, 2013

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Section 1: INTRODUCTION

The Kentucky Department of Revenue (KDOR) in conjunction with the Internal Revenue Service (IRS), accepts state individual income tax returns and corresponding forms and schedules by method of the Modernized E-File system (MeF). The transmission method is a Web Service using Simple Object Access Protocol (SOAP) with attachments messaging. The return data should be formatted using Extensible Markup Language (XML). Authorized E-File providers, also known as Electronic Return Originators (ERO's) can submit returns to the IRS MeF system for federal and state return processing. State returns can be submitted as a federal return with a state return attached, called a "linked" return, or as a state return, known as an "unlinked" submission. Each return (linked or unlinked) must be in a separate submission. A copy of the federal return is required for all Kentucky state returns submitted. Multiple submissions may be contained in a single message payload. Software developers must test with the Kentucky Department of Revenue and receive approval prior to submitting live returns.

The material in this publication will provide software developers the necessary information for capturing and formatting Kentucky income tax data and the associated federal information required as part of a Kentucky return. The information included in these specifications does not provide all the various tax booklet instructions and tax law detail necessary in the preparation of the Kentucky return. Please refer to the 2012 Kentucky individual income tax booklet (Form 740) and the Department's website at **www.revenue.ky.gov** for additional forms, schedules and instructions.

This publication does not represent the requirements and procedures issued by the IRS. All IRS requirements must be adhered to in developing the Kentucky return and participating in the fed/state e-file program. See IRS Publications 4164, Modernized e-file Guide for Software Developers and Transmitters and Publication 1345, Handbook for Electronic Return Originators of Individual Income Tax Returns.

The current schema version posted to the software developer's page on our website (<http://www.revenue.ky.gov/sdi/mef.htm>) is **2012v1.2**.

Section 2: OVERVIEW OF 2012TY / 2013PY CHANGES

Software developer testing for tax year 2012 will begin November 5, 2012. Software developer testing for tax year 2011 ended on August 15, 2012.

All forms and schedules that were available in our Legacy E-File System are incorporated into MeF.

The following information was not required in the Legacy E-File System but will be required in MeF.

- InternetProtocol/IPAddress – required for all online returns;
- InternetProtocol/IPTimestamp, required for all online returns;
- Filer/Primary/DateofBirth, required for ALL returns;
- Filer/Secondary/DateofBirth, required on all returns using the married filing separate on a combined return or married filing joint return filing statuses;
- The 'SoftwareID' data element is required in the schema; it should be populated with the same software developer code used for Legacy E-File;
- A complete copy of the XML federal return is required for all Kentucky returns, including unlinked returns;
- Some fields in the Kentucky schemas, while listed as optional fields in the schema, will be required to be completed. *Please refer to **Section 8** for a list of these fields and their requirements.*
- *Please refer to **Section 10** for field information specific to Kentucky.*

Standard Deduction

The Standard Deduction for the 2012 tax year has been increased from \$2,240 to \$2,290.

Family Size Tax Credit Table for TY2012

The MGI amounts in the family size tax table changed for TY2012. The tax year 2012 table is provided below.

Family Size	One		Two		Three		Four or More		Credit Percentage is
	is over	is not over	is over	is not over	is over	is not over	is over	is not over	
TY 2 0 1 2		11,170		15,130		19,090		23,050	100%
	11,170	11,617	15,130	15,735	19,090	19,854	23,050	23,972	90%
	11,617	12,064	15,735	16,340	19,854	20,617	23,972	24,894	80%
	12,064	12,510	16,340	16,946	20,617	21,381	24,894	25,816	70%
	12,510	12,957	16,946	17,551	21,381	22,144	25,816	26,738	60%
	12,957	13,404	17,551	18,156	22,144	22,908	26,738	27,660	50%
	13,404	13,851	18,156	18,761	22,908	23,672	27,660	28,582	40%
	13,851	14,186	18,761	19,215	23,672	24,244	28,582	29,274	30%
	14,186	14,521	19,215	19,669	24,244	24,817	29,274	29,965	20%
	14,521	14,856	19,669	20,123	24,817	25,390	29,965	30,657	10%
	14,856	-	20,123	-	25,390	-	30,657	-	0%

Form 740, Section A – Business Incentive and Other Tax Credits

New Markets Development Program tax credit -

A new nonrefundable credit has been added to line 21 Section A - Business Incentive and Other Tax Credits of the Form 740. The total of the Business Incentive and Other Tax Credits has been moved down from line 21 and is now line 22. The new credit is the New Markets Development Program tax credit.

The New Markets Development Program tax credit was created in KRS 141.432 to 141.434 to encourage taxpayer investment in low-income communities. A taxpayer that makes a qualified equity investment in a qualified community development entity may be eligible for a credit that may be taken against the corporation income tax, individual income tax, insurance premiums taxes and limited liability entity tax.

The qualified community development entity must first submit an application to the Department of Revenue for approval. The person or entity actually making the loan or making the equity investment will be able to claim a credit, subject to a \$5 million credit cap each fiscal year, by completing Form 8874(K)-A.

Any unused approved credit may be carried forward for use in any subsequent tax year.

Form 8863-K - Kentucky Education Tuition Tax Credit

Any unused credit carryforward remaining from the 2007 tax return is no longer eligible for a carryforward on Form 8863K.

Section 3: CONTACT INFORMATION

Software Developer's website: <http://www.revenue.ky.gov/sdi/>

**Mailing Address: 501 High Street, Station 22
Frankfort, KY 40601-2103
Fax: 502-564-0230**

Electronic Filing System Analyst
Technical Specifications
State Record Layouts
Testing

Primary Contact:
Audrey J. Terry
502-564-7862
AudreyJ.Terry@ky.gov

Secondary Contact:
Robert H. Carter
502-564-3632
RobertH.Carter@ky.gov

Electronic Filing Coordinator
Electronic Filing Helpdesk

Primary Contact:
Judy Ritchie
502-564-5370
Judy.Ritchie@ky.gov

Secondary Contact:
Barbara Backer
502-564-7951
Barbara.Backer@ky.gov

Section 4: ACCEPTANCE & PARTICIPATION

Kentucky will accept returns electronically from any IRS approved software provider upon completion of testing with the Kentucky Department of Revenue.

Each year vendors are required to update the following information before they begin testing with the Kentucky Department of Revenue:

- SoftwareID
- Primary / Secondary contact name
- Primary / Secondary e-mail addresses
- Primary / Secondary telephone numbers
- Primary fax number
- Software Company Name / Market Name
- Mailing Address
- Company sales phone number
- Company web address

The 'SoftwareID' data element is required in the schema and should be populated with the same software developer code used for Legacy E-File. If you did not participate in Legacy E-File contact Audrey Terry to setup a SoftwareID. The SoftwareID must be all upper case within the XML.

Section 5: DEVELOPER'S RESPONSIBILITIES

Developed software must meet the following requirements:

1. Adhere to all federal and state procedures, requirements and specifications. These requirements are specified in IRS Publication 4164, *Modernized e-File Guide for Software Developers and Transmitters*.
2. Successfully complete all testing.
3. Be developed in accordance with statutory requirements and Kentucky Department of Revenue return preparation instructions.
4. Provide accurate Kentucky tax returns in correct electronic format.
5. Provide data validation, verification, and error detection to prevent transmission of incomplete, inaccurate, or invalid return information.
6. Software provider must be available to correct any software errors, which may occur after production begins, and work with the Kentucky Department of Revenue to follow up on any processing issues that may arise during filing season. If software providers need to re-release corrected software, it should be done in a timely manner and proper notification should be made to all customers.

Section 6: SOFTWARE ACCEPTANCE, TESTING & APPROVAL

1. Software developers that meet the current testing requirements set forth by the IRS are invited to test for Kentucky Department of Revenue acceptance. No formal application is necessary, although, a secondary check against our records will be performed prior to acceptance. The Kentucky test package will be available after the federal package is released to software developers. All transmissions must contain the 'SoftwareID'. This identification must be verified before the first test file is transmitted. A contact name and e-mail address must also be provided for test result notification. **After your software is accepted, an acceptance letter will be issued which must be provided to all software users with the final version of the software.**
2. The Kentucky Department of Revenue will accept test returns tax year 2012 beginning November 5, 2012. The Kentucky MeF testing system is subject to IRS availability and dates are subject to change. Please e-mail Audrey Terry when sending test returns and include your Software ID and the Submission id's associated with the test returns being submitted.
3. The test package will consist of PDF copies of state test returns and may also include scenarios for special test conditions.
4. Software developers are encouraged to support all schedules, forms and occurrences. It is important that customers are provided with the complete range of services. Please submit linked and unlinked returns within your test package. If you are a Free File provider with Kentucky, please submit at least one test as a free filed return with **SpecialProgram** marked appropriately (`<SpecialProgram>Freefile</SpecialProgram>`).
5. If your software does not support all forms and schedules or occurrences, please inform the Kentucky Department of Revenue before the first transmission so we can take the restrictions into consideration when reviewing your submission.
6. Two (2) separate documents containing business rules have been posted to the software developer's page on the Kentucky Department of Revenue website.
 - The first document contains **complete** business rules for the primary tax form. All of these edits will be verified in Kentucky's system before your software is approved.
 - The second document contains only those errors that may cause a return to reject. These were taken from the complete business rules document and placed in a separate document. All other business rule failures could result in the return being adjusted by backend processes.
7. The Kentucky Department of Revenue will provide test results in a timely manner, usually within 48 hours of receipt. A software provider who successfully completes testing will receive an approval letter via an e-mail to the contacts provided.

8. Acknowledgements will be provided for all test returns. An 'Accepted' acknowledgement does not mean your software is approved for release.

Section 7: ACKNOWLEDGEMENT SYSTEM

The Kentucky Department of Revenue will generate an acknowledgement of acceptance or rejection for all returns received. The acknowledgement record will be in a format approved and agreed upon by the IRS, state agencies, transmitters and software developers.

Transmitters and software developers should allow 2 days to receive the state acknowledgement before contacting the department.

To check on the status of a Kentucky acknowledgement, contact Audrey Terry or the Electronic Filing Helpdesk by phone or e-mail with the following information:

Transmission Date
Submission ID

Section 8: GENERAL INFORMATION

For individual income tax, the following forms and schedules are included:

- Form 740 – Kentucky Individual Income Tax Return Full-Year Residents Only
- Schedule A – Kentucky Itemized Deductions
- Schedule J – Kentucky Farm Income Averaging
- Schedule KNOL – Kentucky Net Operating Loss Schedule
- Schedule M – Kentucky Federal Adjusted Gross Income Modifications
- Schedule P – Kentucky Pension Income Exclusion
- Form 2210K – Underpayment of Estimated Tax by Individuals
- Form 4562K – Depreciation and Amortization
- Form 4972K – Kentucky Tax on Lump-Sum Distributions
- Form 5695K – Kentucky Energy Efficiency Products Tax Credit Form
- Form 8582K – Kentucky Passive Activity Loss Limitations
- Form 8863K – Kentucky Education Tuition Tax Credit
- Worksheet A – Credit for Taxes Paid to Other State Worksheet
- Worksheet C – Kentucky Limited Liability Entity Tax Credit Worksheet

At this time, all schedules for filing a Kentucky individual income tax return have been included in the schemas. Kentucky will accept PDF documents for supporting documentation but prefers the data be supported as XML data. **If credit for taxes paid to other states is being claimed, Worksheet A is required but a copy of the others states return is not needed.**

The Kentucky Department of Revenue will accept the following return types:

- Linked (Fed/State): An original federal return submitted with one original state return.
- Unlinked (State Only): A copy of the federal return is still required with an unlinked return submission.

Required Data Elements

- There are some elements in the Form 740 schema that are listed as optional fields but should **ALWAYS** be completed and transmitted.
 - The PoliticalPartyFund / Taxpayer element is required on all returns.
 - The PersonalTaxCredits / RegularCredit / Taxpayer element should be checked on all returns.
- If the filing status selected on the return is filing status 2, (SeparateOnJointReturn), PrimaryTaxPayerAmount & SecondaryTaxPayerAmount fields are expected to be completed. If the spouse has no income, filing status 3, (JointReturn), should be selected.
- At this time, Kentucky does not allow electronic filing of the Form 40A102, Application for Extension of Time to File Individual Income Tax Returns. However, if the taxpayer has filed this form with the state or has filed a federal extension (Form 4868), please mark the federal/state extension field **(FederalExtension Indicator)** in the Form 740 schema and the late filing penalty will not be assessed during processing.

- Form 40A102 - Use this form if you (1) are requesting a Kentucky extension of time to file (complete Section I); (2) are requesting a Kentucky extension and desire to make a payment prior to the due date (complete Sections I and II); or (3) have a federal extension and desire only to make a Kentucky payment prior to the due date (complete and submit Section II only).

Decimal places for ratios and percentages

- Ratios types will use a single position in front of the decimal and up to 4 decimal places depending on the element. These element types exist on Form 4972K, Form 8863K.
- Percentage types will use 3 positions in front of the decimal and up to 2 decimal places depending on the element. These element types exist on Schedule A, Schedule P, and Worksheet C.

Numeric Fields

- Amount fields should be sent as whole dollar. Kentucky numeric fields accommodate up to 15 total digits.

Exclusions from Electronic Filing

- Returns for a tax year not supported by MeF
- Non-calendar year filers for individual income tax

Nonresident & Part-year Resident Returns

- Kentucky is working on the Form 740-NP and supporting schedules after the start of tax year 2012. More information will be made available as we know it.

Amended & Prior Year Returns

- No decision has been made at this time regarding amended and prior-year returns being accepted in MeF. If Kentucky decides to support these types of returns, it will only be for tax years supported by MeF.

Rejected Returns

ErrorCategory	ErrorMessage
XML Validation	<Actual XML Error Message>
Duplicate Return	Original Return already received for this tax year by SSN.

See the complete list of business rules with corresponding reject codes listed on the software developer's page listed on our website.

Perfection Period

- Kentucky follows the IRS 5 day perfections period on rejected individual income tax returns.

Direct Deposit and Direct Payment

- Kentucky accepts both direct deposit and direct payment (ACH debit) requests on MeF returns. The FinancialTransaction is restricted to allow only one direct deposit

and one state payment. **At this time, Kentucky is not able to process International ACH Transactions so the checkbox for “NotIAIndicator” should be sent on all Financial Transactions.**

Federal Forms & Schedules Required

- Kentucky requires a complete copy of the XML federal return and wage and income statements to be sent along with the Kentucky XML return whether sent as a “linked” or “unlinked” submission.

Electronic Filing Statistics

Individual:

Type of E-filing Program	Fed/State + State Only
# of State Taxpayers	1,800,000 approx.
# of State Returns E-filed	1,440,000 approx.
ELF Refund Time Frame	5 - 10 days
Direct Deposit Time Frame	5 - 7 days
Direct Payment (ACH Debit)	YES
Direct Deposit	YES
Balance Due Returns	YES

Signature Process: PIN Signature process used for the federal return is accepted for the Kentucky signature requirement. Form 8879-K is the required signature / attachments document. No signature document should be mailed to Kentucky unless requested.

Important Dates

For Taxable Period beginning January 1, 2012, and ending December 31, 2012

Begin Federal/State Software Testing	November 5, 2012
Begin Transmitting Returns to IRS/KDOR	January 30, 2013
Last Day to Transmit Kentucky Returns Electronically	November 23, 2013
Last Day for all fed/state rejected returns to be re-transmitted and accepted	November 28, 2013

NOTE: These dates are subject to change at any time.

Electronic Filing Program Publications and Forms

IRS Form	Name	State Equivalent
Pub 1345	Handbook for Electronic Preparers	KY-Pub 1345
Pub 4164	Modernized e-File Guide for Software Developers & Transmitters	KY-Pub 4164
Pub 1436	Individual Income Test Package	KY-Pub 1436
Form 1040-V	Payment Voucher	Form KY-740-V

Note: Form 8948-K was created in tax year 2011 to explain the reason for not following the paid preparer mandate passed by HB319 in 2010. A Form 8948-K should be attached to any paper return filed by a paid tax preparer that is under the mandate.

Section 9: Schemas & Transmission Specifications

- The Kentucky forms-based schema has been developed to match all tax forms and schedules included in our e-file program.
- Software developers should apply the data element restrictions documented in the schema to the corresponding data elements in their software.
- Annotations are provided for all line items to help in the development process, as well as to provide additional information when a submission is rejected.
- All XML data must be well formed.
- Packaging of data and transmission payload must be in the proper format.
- Returns filed in XML format with SOAP attachments allow for binary attachments to the submission. These attachments could consist of credit schedules, statement records, or other types of documentation. The allowed file type for an attachment is file extension .PDF. The file order of attachments and procedures must follow the IRS requirements for binary attachments as found in IRS publication 4164. The Department will allow for binary attachments to the state return.
- A submission should contain a Kentucky state return and copy of the federal return including wage and tax statements.
- Each submission must be a separate file.
- Each state return must be submitted in the XML format specified and agreed upon by IRS, state agencies, transmitters, and software developers.
- Each linked state return should include a copy of the federal return as submitted to the IRS.
- If the IRS rejects a Fed/State submission, the state will not receive the state return portion. The Fed/State submission must be re-submitted.
- Each submission (state return, federal return, manifest and attachments) must be in Zip archive format. The zip file name should be 99999999999999999999.zip. Where the 9's are the submission id. The state submission should be named 99999999999999999999.xml
- The manifest schema is controlled by TIGERS and the IRS.
- PDF attachment names may contain letters and numbers. The name should reference the Form/Schedule and line number when possible. The PDF should

only have one file extension '.pdf' The LinkToAttachment element in the XML state return must match the actual file name of the pdf.

- No nesting of zip archive files or returns will be allowed. (i.e. one submission, one zip.)
- The SOAP message itself must not be compressed or zipped.
- The message must contain a header, a body, and an attachment. See Modernized E-File Logical ICD Model for message layout and message technical specifications.
- ERO's and transmitters must be approved with the IRS in order to transmit MeF returns.
- The Kentucky Department of Revenue will produce an acknowledgement of acceptance or rejection for each state submission. The transmitter may then retrieve Kentucky's acknowledgement from the IRS.
- The Kentucky Department of Revenue asks that vendors not submit form tags for any schedules, worksheets or forms that are not used in the return.

Section 10: Kentucky Form Edits

This Section contains field information rules that should be followed by all developers on the primary Kentucky return and supporting schedules when electronic return data is processed. This should be used as a guide to assist tax software developers.

Form 740

Political Party Fund – One of the three (3) taxpayer political party fund options must be selected for all filing statuses. If “Single” or “Married Filing Separate Returns” the spouse political party fund should be NULL. If married filing joint or married filing separate on a combined return filing status is selected, one of the taxpayer and spouse political party fund options must be selected.

If filing status 4 is selected, married filing separate returns, and the spouse SSN is unavailable, the spouse name should be placed in the Form 740 schema FS4SpouseName. However, if both spouse name and SSN are provided, place this information in the secondary filer portion of return header state.

Line 5 of Form 740 **must** match the federal adjusted gross income on Line 37 of Form 1040, Line 21 of Form 1040A or Line 4 of Form 1040EZ. **(Exception: If Kentucky filing status is Married Filing Separate Returns and the federal filing status is Married Filing Joint).**

If a taxpayer’s Kentucky modified gross income is negative, the Kentucky modified gross income is zero (\$0) for family size tax credit calculation.

If the family size tax credit amount is greater than zero, the total family size element must be populated.

Tax elements for the following line numbers cannot be less than zero. Lines 12A, 12B, 14A, 14B, 16A, 16B, 18A, 18B, 19, 22, 24, 26, and 28 cannot be negative. If value equals negative amount, send zero in the schema element.

If Kentucky Schedule A, Schedule M, Schedule P, Schedule J, Form 2210-K, Form 4972-K, Form 5695-K, Form 8863-K, Form 8582-K, Worksheet A, or Worksheet C are utilized or required and the software does not support these schedules or forms, the taxpayer will not be allowed to file electronically. Any return requiring and missing these schedules will be rejected.

Underpayment of Estimated Tax Penalty--Form 2210-K is required if Form 740, line 40 exceeds \$500. If this form is not supported by your software package, our systems will automatically calculate this penalty and a notice of tax due will be sent to the taxpayer.

Late Filing Penalty--If the filing date is after April 15, 2013, a late filing penalty must be calculated. The penalty is 2 percent of the additional tax due field for each 30 days or fraction thereof that a return is not filed. The penalty does not exceed 20 percent and the minimum penalty is \$10.

Late Payment Penalty--For returns filed after April 15, 2013, if the amount timely paid is greater than 75 percent of the tax determined due, no late payment penalty is due. If the amount prepaid is less than 75 percent of the tax determine due, then a penalty of 2 percent of the additional tax due may be assessed for each 30 days or fraction thereof that the tax is past due, not to exceed 20 percent. The minimum penalty is \$10.

Interest--For returns filed after April 15, 2013, interest is assessed at the "tax interest rate" of 5% from April 15, 2013, until the date of payment. For 2012 tax returns (calendar year 2013), the interest rate is 6 percent or .000164 daily. Interest is calculated at the current interest rate + 2%.

Child care is only allowable if federal Form 2441 is submitted. It should be included in the federal record with the federal data, even if it is not required for federal purposes. Line 9 of Form 2441 is the amount used to calculate the Kentucky credit for child-care expenses.

The format for percentage fields varies by form. It could be in the range of 2 to 4 positions past the decimal. Please review each schema to determine how to format these fields. Schedule A uses xxx.xx format, Schedule P uses xxx.xx, Form 4972K uses x.xxxx, 8863K uses x.xxx.

Schedule A

If the Schedule A schema is present in the return, the KY AGI fields must be populated for medical/dental expense, casualty & theft exclusion and job expenses if those sections are utilized.

The percentage fields listed on page 2 of the Schedule A should be formatted as 5,2. (ie. 100% equals 100.00, 50.5% = 50.50).

If one taxpayer uses itemized deductions then the spouse must also itemize deductions. Returns filed with 2 Schedule A forms are accepted. The standard deduction is only available to non-itemizers. Married Filing Joint Returns are only entitled to one standard deduction.

If the Kentucky adjusted gross income has a negative value, it is treated as such on the Kentucky Schedule A for the adjusted gross income fields.

Schedule M

The Schedule M schema should contain no negative values. There is a separate section for additions and subtractions from income.

Form 8582K

Form 8582K contains assumed negative elements on page 1. These elements should be sent as positive numbers since the form assumes a negative entry. The following line numbers are affected by this rule; Line 1b, Line 1c, Line 2a, Line 2b, Line 2c, Line 3b and Line 3c.

Financial Transaction Record

The financial transaction record has been altered to allow only one direct deposit account and one direct debit payment account. Kentucky does not allow the refund to be deposited into multiple accounts. Also, the state payment, if submitted with the return data, must equal the total amount due. No partial payments are accepted when filing the return. **The payment amount must be a whole dollar amount.**

NOTE: If the return is adjusted and the amount of the refund or the tax due amount changes, the financial transaction data for refunds or payments will not be utilized. Any change in the refund amount will result in a paper check being issued and any change in the tax due amount will result in a notice of total tax due.